



Results matter: Performance pay and higher education

By Teresa Lubbers, Indiana Commissioner for Higher Education (December 28, 2010)

For the past 50 years, Indiana's economy has been losing ground. Using the best overall measure of a state's economic health, per capita income, Indiana ranks 41st out of 50 states with Hoosiers earning \$5,400 less annually than the national average.

It's no coincidence that Indiana also ranks 41st nationally in the proportion of adults with a college credential (and 45th with a bachelor's degree or higher). More so than ever before, education attainment separates the "haves" from the "have nots," and it's a trend that will become even more apparent in the future for both states and individuals. Two-thirds of all new jobs already require a postsecondary credential, which means nearly one million Hoosier adults need more education if Indiana has any chance of competing in a global economy.

Indiana cannot meet these economic and educational demands without fundamentally rethinking how we deliver higher education, how we measure progress, and how we reward results. And it's clear that our colleges can and must do better on the measures that matter most: student graduation rates and degree production. Even our top-performing colleges are falling short: four-year graduation rates remain below 50 percent for Indiana residents and degree production has actually declined at some colleges and only modestly improved at others.

At the Indiana Commission for Higher Education, this reality is driving a relentless focus on increasing college completion rates, producing more high-quality degrees and increasing overall operating efficiency. Under our state budget recommendations, more than \$123 million would be distributed to Indiana's public colleges over the next two years through a performance-based formula that favors outcome measures like college degree production over traditional input measures like student enrollment.

Though we recommend roughly tripling the amount of state money set aside for performance funding compared to the last two-year budget cycle, it's important to keep this change in context. Indiana annually provides \$1.7 billion in total higher education funding, which is about 13 percent of the state's overall budget. At a time when state finances are strained and Indiana's economy is struggling to recover, it seems both reasonable and prudent to place a priority on performance and to ensure the best possible return on every taxpayer dollar.

Any employer can attest to the value of performance pay: everyone has clear goals; results are rewarded; and improvement is incentivized. Employers also recognize that efficiency is not the enemy of quality. Leading companies around the world confirm that focusing on the bottom line leads to benefits that extend well beyond improved operating efficiency. We expect similar results from Indiana's higher education system.

Performance funding alone is not the answer to every challenge facing our colleges and universities, but it must be a key part of the equation. When supporting student success matters most, rewarding results may prove to be the catalyst Indiana needs to achieve true progress.